

## Message Text

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ORIGIN SP-02

INFO OCT-01 EUR-12 EA-06 NEA-10 ISO-00 OES-03 ERDA-05

SSO-00 NSCE-00 USIE-00 INRE-00 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 PRS-01 OMB-01 FEA-01 ACDA-05

SAM-01 NRC-05 HEW-02 AF-06 ARA-06 IO-10 /146 R

DRAFTED BY S/P:JHKAHAN

APPROVED BY OES:MKRATZER

C:HSOHNENFELDT

EA:WGLEESTEEN

NEA/IRN:CNAAS

EB:RMARTIN (INFORMED)

ERDA:GHELFRICH

DOMESTIC COUNCIL:GSCHLEEDE

S/S:CABORG

----- 051230

O 252243Z JUN 75

FM SECSTATE WASHDC

TO AMEMBASSY TOKYO IMMEDIATE

AMEMBASSY TEHRAN IMMEDIATE

INFO AMEMBASSY ROME IMMEDIATE

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E.O. 11652: GDS

TAGS: TGEN,XBJA, XF

SUBJECT: DECISION ON EXPANDED URANIUM ENRICHMENT CAPACITY

REFS: (A) STATE 145886, (B) TEHRAN 5946

FOR TOKYO AND ROME, PLEASE PASS ASSISTANT SECRETARY ENDERS

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1. AS NOTED REFTTEL (A), EMBASSIES BEING PROVIDED BY SEPTTEL

GENERAL INFORMATION ON EXPANSION OF US ENRICHMENT CAPACITY. THIS INFORMATION, WHICH IS DESIGNED TO EXPLAIN THE PRESIDENTIAL DECISION, WILL BE EMBARGOED FOR RELEASE UNTIL 11:15 A.M. WASHINGTON TIME ON 26 JUNE, WHEN A PRESIDENTIAL MESSAGE WILL BE FORWARDED TO CONGRESS. IN VIEW OF LONG-STANDING INTEREST OF BOTH GOJ AND GOI IN PARTICIPATING IN PRIVATE US ENRICHMENT VENTURE, HOWEVER, IT IS ESSENTIAL THAT SPECIAL APPROACHES BE MADE TO THESE GOVERNMENTS TO ENSURE THAT THEY LEARN OF US PLANS OFFICIALLY PRIOR TO OFFICIAL ANNOUNCEMENT. ACCORDINGLY, SPECIAL APPROACH HAS BEEN AUTHORIZED TO BRIEF OFFICIALS IN THESE TWO COUNTRIES PRIOR TO EMBARGO.

2. BOTH EMBASSIES SHOULD MAKE CONTACTS AT HIGHEST LEVELS POSSIBLE, ON US SIDE PREFERABLY BY AMBASSADOR OR DCM, AND WITH APPROPRIATE GOVERNMENT-LEVEL COUNTERPARTS. EMBASSY TOKYO SHOULD ALSO INITIATE PARALLEL CONTACT WITH CHAIRMAN OF JAPANESE ENRICHMENT REPROCESSING GROUP, EMPHASIZING IMPORTANCE WE ATTACH TO ROLE OF HIS INDUSTRY GROUP. ALL

CONTACTS SHOULD BE CAST IN LIGHT OF POSITIVE US INTEREST IN ADVANCED CONSULTATIONS ON THE PENDING ANNOUNCEMENT, CONSISTENT WITH PAST SPECIAL RELATIONSHIPS IN THIS AREA, AND SHOULD STRESS CONFIDENTIALITY OF APPROACH PRIOR TO EMBARGO. FOR TOKYO, TIMING OF APPROACH SHOULD BE SET AT APPROXIMATELY 1800 TOKYO TIME ON 26 JUNE. FOR TEHRAN, YOU MAY INFORM GOI AT ANY TIME ON 26 JUNE PRIOR TO EMBARGO.

3. APPROACHES SHOULD DRAW ON SUBSTANCE OF GENERAL SEPTTEL REGARDING NATURE AND PURPOSE OF PRESIDENTIAL DECISION. HOWEVER, SPECIFICALLY TAILORED APPROACHES AS OUTLINED IN FOLLOWING PARAS SHOULD BE EMPHASIZED. THIS EMPHASIS IS AIMED AT HIGHLIGHTING MUTUAL INTEREST IN CONCLUDING JAPANESE AND IRANIAN FINANCIAL INVESTMENTS IN THE PROPOSED UEA GASEOUS DIFFUSION PLANT, SINCE THIS VENTURE IS PLANNED TO BE THE FIRST NEW INCREMENT OF CAPACITY COMMITTED UNDER THE PRESIDENT'S PROGRAM AND BOTH COUNTRIES HAVE EXPRESSED SERIOUS INTEREST IN NEGOTIATING SUCH INVESTMENT ARRANGEMENTS.

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4. FOR TOKYO. EMBASSY SHOULD STRESS SIGNIFICANCE US ATTACHES TO LONGSTANDING COMMITMENTS BY BOTH GOVERNMENTS TO COOPERATE IN THE ENERGY FIELD AND PARTICULARLY IN ASSURING THAT ENRICHED URANIUM FUEL NEEDS VITAL TO BOTH COUNTRIES' NUCLEAR POWER PROGRAMS ARE MET. EMBASSY SHOULD NOTE THAT JAPAN HAS BEEN THE LARGEST FOREIGN MARKET FOR US ENRICHMENT SERVICES IN THE PAST AND THAT IT IS ANTICIPATED THAT BOTH COUNTRIES CAN AND WILL FIND WAYS TO SUSTAIN A

MAJOR COOPERATIVE RELATIONSHIP IN TERMS OF NEW US ENRICHMENT CAPACITY.

A. EMBASSY SHOULD FAVORABLY RECALL COOPERATIVE JAPANESE FEASIBILITY STUDY EFFORTS AND THE CONTINUING CONTACTS BETWEEN UEA AND RELEVANT ENTITIES IN JAPAN THAT HAVE OCCURRED DURING THE PAST FEW YEARS IN AN ATTEMPT TO FIND MUTUALLY SATISFACTORY ARRANGEMENTS FOR PARTICIPATING IN A PRIVATE US GASEOUS DIFFUSION PROJECT. EMBASSY SHOULD EMPHASIZE US HOPE THAT THE PRESIDENT'S ANNOUNCED PLAN FOR ENSURING A VIABLE PRIVATE ENRICHMENT INDUSTRY IN THE UNITED STATES CAN REMOVE ANY JAPANESE UNCERTAINTIES OR MISPERCEPTIONS OVER THE UEA PROJECT AND RESULT IN AN APPROPRIATE LEVEL OF JAPANESE INVESTMENT IN THIS ENTERPRISE. IN PARTICULAR, IT SHOULD BE STRESSED THAT THE MODIFIED NATURE OF THE UEA PROPOSAL, SET WITHIN THE FRAMEWORK OF AN OVERALL PRIVATE ENTRY POLICY INCLUDING OTHER COMPANIES AND TECHNOLOGIES AT A SUBSEQUENT DATE AND INVOLVING CLEAR GOVERNMENT OBLIGATIONS TO HONOR CONTRACT COMMITMENTS, SHOULD HELP PAVE THE WAY FOR SUCH A CONSTRUCTIVE RELATIONSHIP TO BE NEGOTIATED.

B. EMBASSY SHOULD NOTE THAT FOREIGN INVESTORS WOULD NOT ONLY BENEFIT INTRINSICALLY FROM THE RATE OF RETURN AND THE PARTICIPATION IN PLANT OWNERSHIP, BUT WOULD HAVE GUARANTEED ACCESS TO THE PLANT PRODUCT IN PROPORTION TO THEIR INVESTMENT. EMBASSY SHOULD UNDERSCORE FACT THAT TARGET FIGURE OF NO MORE THAN APPROXIMATELY 60 PERCENT FOREIGN INVESTMENT WILL BE SET, WITH APPROXIMATE TARGET FIGURE OF 20 PERCENT INVESTMENT FOR ANY SINGLE FOREIGN COUNTRY. THIS LATTER LIMIT, IT SHOULD BE NOTED, WOULD BE CONSISTENT WITH EXPRESSED JAPANESE INVESTMENT INDICATIONS AND COULD BE BENEFICIAL FROM THE JAPANESE STANDPOINT IN LIMITED OFFICIAL USE

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ENSURING THAT NO OTHER FOREIGN COUNTRY OBTAINS A LARGER LEVEL OF PARTICIPATION THAN JAPAN. CONSISTENT WITH THE REQUIREMENTS OF THE ATOMIC ENERGY ACT, EMBASSY SHOULD ALSO NOTE THAT THE PLANT WOULD HAVE TO BE CONTROLLED BY A MAJORITY VOTE OF THE US PARTICIPANTS SHARE.

C. EMBASSY SHOULD INDICATE THAT CONTINUING CONTACTS ON THIS ISSUE AT BOTH GOVERNMENT AND PRIVATE LEVELS ARE ANTICIPATED.

4. FOR TEHRAN. GOI INTEREST IN INVESTING IN THE UEA VENTURE SHOULD BE RECALLED AND EMBASSY SHOULD EMPHASIZE SIGNIFICANCE OF PRESIDENTIAL DECISION TO MOVE FORWARD WITH A PRIVATE ENRICHMENT PROGRAM WHICH ENCOURAGES FOREIGN INVESTMENT. EMBASSY SHOULD STRESS AS APPROPRIATE

BENEFITS OF FOREIGN INVESTMENT IN TERMS OF MUTUAL CO-OPERATION, RATE OF RETURN, PARTICIPATION IN THE PLANT OWNERSHIP, AND GUARANTEED ACCESS TO PLANT PRODUCT. IN RESPONSE TO EMBASSY QUESTIONS RAISED IN REFTEL (B), FOLLOWING POINTS ARE RELEVANT AND MAY BE DRAWN UPON IF GOI RAISES THESE QUESTIONS IN CONTEXT OF APPROACH ON PRESIDENTIAL DECISION. BECAUSE OF THEIR POTENTIALLY CONSTRAINING EFFECT, HOWEVER, THESE POINTS SHOULD BE NOTED IN LOW KEY MANNER AND WITHOUT DETRACTING FROM POSITIVE ASPECTS OF NEW CAPACITY DECISION AND STRONG USG INTEREST IN ENCOURAGING IRANIAN FINANCIAL PARTICIPATION.

A. AS FAR AS STATUS OF FOREIGN FINANCIAL COMMITMENTS TO THE UEA PLANT, AS EMBASSY AWARE, JAPAN IS OTHER MAJOR PROSPECTIVE INVESTOR IN ADDITION TO THE GOI, ALTHOUGH A NUMBER OF OTHER COUNTRIES MIGHT DECIDE TO PARTICIPATE. JAPANESE COMMITMENT HAS NOT BEEN FINALIZED, ALTHOUGH PROGNOSIS WOULD APPEAR TO BE FAVORABLE IN VIEW OF CHARACTER AND PROMINENCE OF PRESIDENT'S ENRICHMENT PLAN.

B. FOREIGN INVESTORS, AS REFLECTED IN LETTER OF INTENT INITIALED EARLIER BETWEEN GOI AND UEA, WOULD CONTRIBUTE IN DEBT EQUITY RATIO OF 85 PERCENT TO 15 PERCENT AND HAVE VOTING RIGHTS RELATED TO THEIR EQUITY INVESTMENT. DUE TO LIMITS OF FOREIGN VOTING RIGHTS TO 45 PERCENT, CONSISTENT WITH ATOMIC ENERGY ACT, FOREIGN LIMITED OFFICIAL USE

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INVESTORS WOULD BE GIVEN VOTING RIGHTS IN THE PROPORTION OF 45 PERCENT TO THE 60 PERCENT ANTICIPATED MAXIMUM FOREIGN EQUITY, THAT IS, A 20 PERCENT FOREIGN CUSTOMER WOULD HAVE 15 PERCENT TOTAL VOTING RIGHTS.

C. AS IS UNDERSTOOD, FOREIGN INVESTORS WOULD NOT HAVE ACCESS TO CLASSIFIED TECHNOLOGY AS FAR AS THEIR ARRANGEMENTS FOR UEA PARTICIPATION ARE CONCERNED. ANY TECHNOLOGY ACCESS ARRANGEMENT WOULD BE TREATED SEPARATELY AND WOULD HAVE TO BE REVIEWED BY THE USG.

D. AS HAS ALREADY BEEN EXPRESSED TO THE GOI AND ACCEPTED BY UEA, INDIVIDUAL FOREIGN INVESTORS WOULD BE LIMITED TO APPROXIMATELY A 20 PERCENT LEVEL. IN THE CASE OF IRAN, THE DISPOSITION OF THE 20 PERCENT FUEL ENTITLEMENT ASSOCIATED WITH THIS INVESTMENT WOULD PERMIT IMPORTS BY IRAN OF FUEL FOR DESIGNATED DOMESTIC NUCLEAR POWER NEEDS AND FOR APPROVED FUEL FABRICATION SERVICES FOR THIRD COUNTRIES, CONSISTENT WITH THE PROPOSED TERMS OF OUR AGREEMENT FOR COOPERATION WITH THE GOI. FUEL IN EXCESS OF THESE REQUIREMENTS COULD NOT BE IMPORTED BY IRAN BUT COULD BE DISPOSED OF FROM THE US THROUGH EQUITABLE COM-

MERCIAL ARRANGEMENTS TO COUNTRIES HAVING AGREEMENTS FOR COOPERATION WITH THE US CONTAINING APPROPRIATE FUEL SUPPLY LEVELS.

E. IN APPROACHING THE GOI AND DISCUSSING THESE ISSUES, EMBASSY MIGHT USE THIS OPPORTUNITY TO INQUIRE AS TO STATUS OF GOI RESPONSES TO US PROPOSED AGREEMENT FOR COOPERATION, SINCE PRESIDENTIAL ENRICHMENT ANNOUNCEMENT MIGHT WELL CREATE POSITIVE IMPETUS FOR THE GOI TO SEEK RAPID CONCLUSION OF AGREEMENT TO PERMIT NEGOTIATIONS TO BE CONCLUDED BOTH ON FUEL SUPPLY AND POWER REACTORS. KISSINGER

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, URANIUM, FOREIGN INVESTMENT, INDUSTRIAL DEVELOPMENT  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 25 JUN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** KelleyW0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Drafter:** JHKAHAN  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 STATE 145886, 75 TEHRAN 5946  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** KelleyW0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 10 JUN 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <10 JUN 2003 by BoyleJA>; APPROVED <21 OCT 2003 by KelleyW0>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** DECISION ON EXPANDED URANIUM ENRICHMENT CAPACITY  
**TAGS:** TECH, JA, IR, US  
**To:** TOKYO TEHRAN  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006